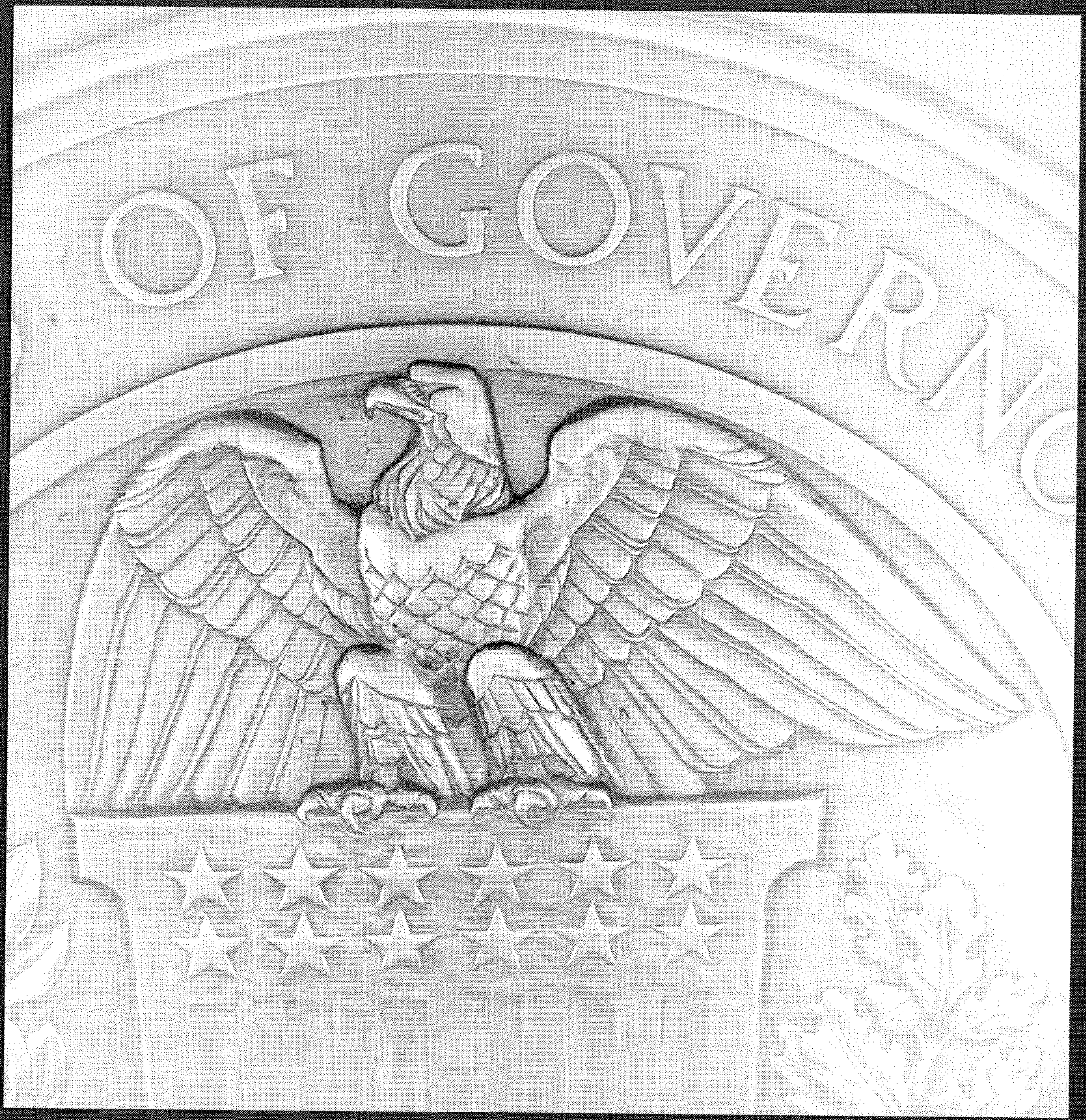
Exhibit I – 1

For use at 10:00 a.m., EST
Wednesday
February 27, 2008

Monetary Policy Report to the Congress

February 27, 2008



Board of Governors of the Federal Reserve System

Monetary Policy Report to the Congress

Submitted pursuant to section 2B of the Federal Reserve Act

February 27, 2008

Board of Governors of the Federal Reserve System

Letter of Transmittal

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

Washington, D.C., February 27, 2008

THE PRESIDENT OF THE SENATE
THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

The Board of Governors is pleased to submit its *Monetary Policy Report to the Congress* pursuant to section 2B of the Federal Reserve Act.

Sincerely,

Ben Bernanke, Chairman

Contents

Part 1
Overview: Monetary Policy and the Economic Outlook

The U.S. economy has weakened considerably since last July, when the Federal Reserve Board submitted its previous *Monetary Policy Report to the Congress*. Substantial strains have emerged in financial markets here and abroad, and housing-related activity has continued to contract. Also, further increases in the prices of crude oil and some other commodities have eroded the real incomes of U.S. households and added to business costs. Overall economic activity held up reasonably well into the autumn despite these adverse developments, but it decelerated sharply in the fourth quarter. Moreover, the outlook for 2008 has become less favorable since last summer, and considerable downside risks to economic activity have emerged. Headline consumer price inflation picked up in 2007 as a result of sizable increases in energy and food prices, while core inflation (which excludes the direct effects of movements in energy and food prices) was, on balance, a little lower than in 2006. Nonetheless, with inflation expectations anticipated to remain reasonably well anchored, energy and other commodity prices expected to flatten out, and pressures on resources likely to ease, monetary policy makers generally have expected inflation to moderate somewhat in 2008 and 2009. Under these circumstances, the Federal Reserve has eased the stance of monetary policy substantially since July.

The turmoil in financial markets that emerged last summer was triggered by a sharp increase in delinquencies and defaults on subprime mortgages. That increase substantially impaired the functioning of the secondary markets for subprime and nontraditional residential mortgages, which in turn contributed to a reduction in the availability of such mortgages to households. Partly as a result of these developments as well as continuing concerns about prospects for house prices, the demand for housing dropped further. In response to weak demand and high inventories of unsold homes, homebuilders continued to cut the pace of new construction in the second half of 2007, pushing the level of single-family starts in the fourth quarter more than 50 percent below the high reached in the first quarter of 2006.

After midyear, as losses on subprime mortgages and related structured investment products continued to mount, investors became increasingly skeptical about the likely credit performance of even highly rated securities backed by such mortgages. The loss of confidence reduced investors' overall willingness to bear risk and caused them to reassess the soundness of the structures of other financial products. That reassessment was accompanied by high volatility and diminished liquidity in a number of financial markets here and abroad. The pressures in financial markets were reinforced by banks' concerns about actual and potential credit losses. In addition, banks recognized that they might need to take a large volume of assets onto their balance sheets—including leveraged loans, some types of mortgages, and assets relating to asset-backed commercial paper programs—given their existing commitments to customers and the increased resistance of investors to purchasing some securitized products. In response to those unexpected strains, banks became more conservative in deploying their liquidity and balance sheet capacity, leading to tighter credit conditions for some businesses and households. The combination of a more negative economic outlook and a reassessment of risk by investors precipitated a steep fall in Treasury yields, a substantial widening of spreads on both investment-grade and speculative-grade corporate bonds, and a sizable net decline in equity prices.

Initially, the spillover from the problems in the housing and financial markets to other sectors of the economy was limited. Indeed, in the third quarter, real gross domestic product (GDP) rose at an annual rate of nearly 5 percent, in part because of solid gains in consumer spending, business investment, and exports. In the fourth quarter, however, real GDP increased only slightly, and the economy seems to have entered 2008 with little momentum. In the labor market, growth in private-sector payrolls slowed markedly in late 2007 and January 2008. The sluggish pace of hiring, along with higher energy prices, lower equity prices, and softening home values, has weighed on consumer sentiment and spending of late. In addition, indicators of business investment have become less favorable recently. However, continued expansion of foreign economic activity and a lower dollar kept U.S. exports on a marked uptrend through the second half of last year, providing some offset to the slowing in domestic demand.

Overall consumer price inflation, as measured by the price index for personal consumption expenditures

(PCE), stepped up to 3½ percent over the four quarters of 2007 because of the sharp increase in energy prices and the largest rise in food prices in nearly two decades. Core PCE price inflation picked up somewhat in the second half of last year, but the increase came on the heels of some unusually low readings in the first half; core PCE price inflation over 2007 as a whole averaged slightly more than 2 percent, a little less than in 2006.

The Federal Reserve has taken a number of steps since midsummer to address strains in short-term funding markets and to foster its macroeconomic objectives of maximum employment and price stability. With regard to short-term funding markets, the Federal Reserve's initial actions when market turbulence emerged in August included unusually large open market operations as well as adjustments to the discount rate and to procedures for discount window borrowing and securities lending. As pressures intensified near the end of the year, the Federal Reserve established a Term Auction Facility to supply short-term credit to sound banks against a wide variety of collateral; in addition, it entered into currency swap arrangements with two other central banks to increase the availability of term dollar funds in their jurisdictions. With regard to monetary policy, the Federal Open Market Committee (FOMC) cut the target for the federal funds rate 50 basis points at its September meeting to address the potential downside risks to the broader economy from the ongoing disruptions in financial markets. The Committee reduced the target 25 basis points at its October meeting and did so again at the December meeting. In the weeks following that meeting, the economic outlook deteriorated further, and downside risks to growth intensified; the FOMC cut an additional 125 basis points from the target in January—75 basis points on January 22 and 50 basis points at its regularly scheduled meeting on January 29–30.

Since the previous *Monetary Policy Report*, the FOMC has announced new communications procedures, which include publishing enhanced economic projections on a timelier basis. The most recent projections were released with the minutes of the January FOMC meeting and are reproduced in part 4 of this report. Economic activity was expected to remain soft in the near term but to pick up later this year—supported by monetary and fiscal stimulus—and to be expanding at a pace around or a bit above its long-run trend by 2010. Total inflation was expected to be lower in 2008 than in 2007 and to edge down further in 2009. However, FOMC participants (Board members and Reserve Bank presidents) indicated that considerable uncertainty surrounded the outlook for economic growth and that they saw the risks around that outlook as skewed to the downside. In contrast, most participants saw the risks surrounding the forecasts for inflation as roughly balanced.